CUI PRODEST? – WHY DO WE SPEAK ABOUT FINANCIAL LITERACY IN A HOSTILE ENVIRONMENT?

CUI PRODEST? - DE CE VORBIM DESPRE CULTURĂ FINANCIARĂ ÎNTR-UN MEDIU OSTIL?

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Abstract: *In this article I argue that there is no reason to look to the financial literacy of the society. I claim that financial literacy is similar to the business ethics: none of them fit to the profit-oriented economic system. There is serious disagreement in the interests of the economic operators. The short-term interests of influential economic actors is to survive and to the make a profit. To be ethical or to make financial educated consumers are enemies of profit. These goals would risk the survival of the whole economic and monetary system.*

Key words: *financial literacy, profit, economic system, monetary system*

WHAT COULD HIGH FINANCIAL LITERACY MEAN?

Financial literacy in practice is the group of skills and abilities of understanding financial data and making conscious decisions to get into a better financial position in life. These skills and abilities include for example to understand what the interest rate in case of deposits and credits means, what inflation is, what kind of banking or other financial products could and should be used in a real situation. It is also an important part of the financial literacy to know savings are not only possible but also necessary throughout an individual's life. [1]

The financial educated person has a specific behavior: he is able to distinguish between useful and harmful, appropriate and inadequate financial things. Calculates, plans, and provides for his future. What would this mean for the economic and monetary system?

1. More savings. You can see what financial needs and problems can and shall follow in your life. The possibility of a new car, another house, retirement or an incident in the life makes it necessary to make savings and insurance. You will need a reserve, to reach your goals and to feel safe.

2. Less consumption. As you have to save money and to pay the insurances, you have less money for consumption. This is a serious problem, because the existing economic system is built on continuous consumption. That is why the electronics and other products will fail or lapse in a few years, although they could work for a long time. That is why the fashion changes every year, and innovations continuously get new products and services. If the global consumption slows down, the economic growing will stop, companies will fail, and the economic system will collapse. [2]
3. Less financial, more real savings. The other problem could appear the growing awareness. If you calculate the yield of your savings, you will find two things. Firstly, if you place your savings into bank deposit or buy safer securities, the bank will pay you interest around the level of inflation, or less. Secondly, if you buy riskier securities for example shares, you can lose the yield of a whole decade in few weeks in a recession. The result of the calculations is very dangerous, because it cause distrust of banks and money. The final behavior instead of saving can be purchasing property or durables. This distrust may result in the collapse of the sensitive monetary and banking system.

Consequence: the financial educated households may stabilize their own positions for a long time, but in the short term this behavior risks the stability of the existing economic and monetary system.

HOW DO THE CORPORATIONS BEHAVE?

The first stage introduced the question why would a critical mass of the financial educated households be dangerous. The endangered actors of the current economic system are the banks and corporations. These institutions would first disappear.

Let we see first the corporations. Regardless of their knowledge, their behavior targets the customers who do not think too much. Their goal is to raise sales, and to make more profit. They cannot afford to tell everything about their products. They cannot afford to tell, if the competing product is better or cheaper then their own.

This means, the goal of advertisement will be to increase needs. They have to evoke emotions, to convince the households, they need the

product. There is a variety of devices, to reach the goal, for example the slogans, the fashion, to feel special, and others. But, very rarely can you see an advertisement, which encourages people to think about important questions. The corporations know, their consumers must not speculate about the products. The only important thing is to consume.

The question is irrelevant, whether the corporations know, the consumers must not speculate about their own, real needs.

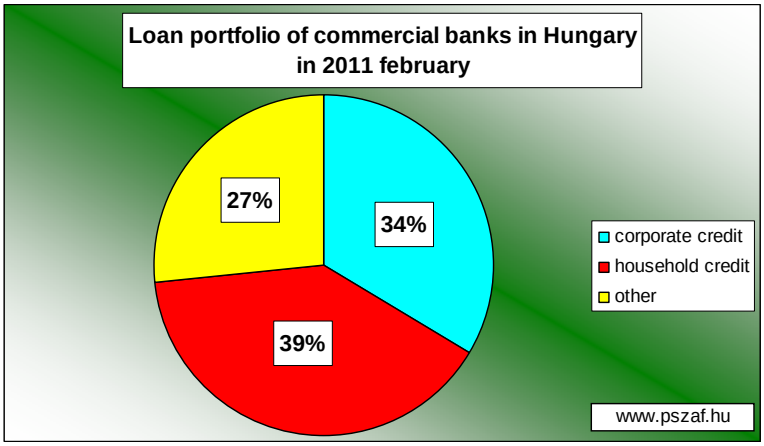
BANKS AND BANKING SYSTEM

Secondly, let us see the banks and monetary system. It can be an exciting task, to convince the households, they need the banks. It is possible only because the people are convenient and trusting. The bank secret is to pack the simple facts into a difficult jargon. The average person does not understand, what is written in the long contracts, and has no idea, what questions could be asked. We all believe that the best place of our savings is in the bank, but is this really true? The interest received is only the level of inflation, or less. But no one knows the level of inflation in the next year, isn't it true?

That's why the financial decision-makers look after the security awareness of banking and monetary system. The value of the money is only its purchasing power, but it depends on the level of inflation. This is a very sensitive and manipulative system, which compete with tangible things, goods. No other bank would like their clients to compare the banking products to real, tangible goods.

What about credits? Economists say the credit products are useful for the companies, which would like to achieve an investment, development. It is true; in this situation one of the solutions is to borrow money. However, nowadays the consumer credits represent the majority of the credit market. There is no investment, no development, there is only consumption imposed on interest. The size of interest, in this case is multiple of the size of the inflation rate. The margin is one of the earnings of the bank.

Summarizing, there is an easily manipulated and expensive banking and monetary system. It is a question, how useful is this for the economic system, and for households? It is easy to imagine the mass of the financial educated households as they say: "I want no more credits." "I'm not interested in your savings offer."



I think, banking and monetary system should not be removed, but will have to be changed. It has to become non-competitive and non-profit. Monetary system should be a catalyst, to facilitate the operation of the economic system. Another question is how this process could take place without a significant injury of the economic system.

SUMMARY

The main actors of the economic and monetary system are not interested to raise the financial literacy of the households. The financially high educated and the thinking mass is a serious threat to the existing system. Corporations and banks need short and long-term a less conscious mass of households.

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